



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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SALES AND/OR TRADE-INS OF TANGIBLE PERSONAL PROPERTY FROM RENTAL INVENTORY

Revised: December 31, 1992

This Excise Tax Bulletin explains the Department's position on the sale and/or trade-in of tangible personal property which had previously been held for lease or rent. This is a clarification and not a change in the Department's position.

Persons who lease or rent tangible personal property periodically sell or trade-in their rental inventory. Is the sale tangible personal property previously held in rental inventory exempt as a casual sale? What, if any, tax liability is incurred when rental inventory is traded-in to obtain new rental inventory?

RCW 82.04.040 provides that:

"Sale" means any transfer of the ownership of, title to, or possession of property for a valuable consideration

The term "sale" is defined by statute to include the renting or leasing of property. The term "casual or isolated sale" is defined by RCW 82.04.040 to mean:

[A] sale made by a person who is not engaged in the business of selling the type of property involved.

The sale of rental inventory by a lessor does not qualify as a "casual or isolated sale." By definition, a lessor is engaged in the business of selling the property it leases. A valid distinction between the sale and lease transactions cannot be made.

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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The Department has also concluded that trade-in transactions are taxable to the same extent as outright sales. When property is traded-in, ownership in that property is transferred. While money may not be received by the person trading-in the property, consideration in the form of a reduced price for the property being acquired is realized. The measure of the consideration received is the value of the property traded-in.

The sale or trade-in of tangible personal property from rental inventory is subject to the wholesaling B&O tax when made to a person in the business of reselling such property. If the sale or trade-in is made to a consumer, retailing B&O and retail sales tax apply. The amount of retail sales tax to be collected is subject to the "trade-in" provisions of WAC 458-20-247.

The following is an example of a situation in which the trade-in is subject to the B&O tax to the person trading in the property.

XYZ Automobile Leasing purchases a new car from ABC Car Dealer. This car will be part of XYZ's inventory of cars which it rents or leases to consumers. The purchase price of the car was \$15,000 with a trade-in allowance for an older vehicle of \$5,000 which was traded-in and which had previously been part of XYZ's inventory of cars being leased.

The trade-in is considered to be a sale by XYZ to ABC and XYZ is subject to the wholesaling B&O tax on a value of \$5,000. This is not a casual or isolated sale because XYZ is in the business of selling vehicles in the form of leases or rentals. ABC is subject to the wholesaling B&O tax on the full selling price of the car, \$15,000 in this case, which includes the consideration received in the form of the trade-in.